

# A Presentation to the California Department of Managed Healthcare

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## Quantifying Delivery Model Value: An Analysis Of Healthcare Costs

*January 31, 2006*

*Presented by: Barbara Wachsman, Senior Vice President*

*Anil Kochhar, Consultant Actuary*

This presentation is incomplete without the accompanying discussion; it is intended for the information and benefit of the immediate recipients hereof.



# Purpose of Discussion

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## *First steps toward evaluating the effect of FFS shift on managing care*

- Review health plan marketplace evolution
  - Healthcare paradigm shift
  - Current plan design trends
  - Challenges for providers and consumers
- Review available (limited) cost and utilization data
  - Methodology and limitations of our analysis
  - Early results
  - Emerging utilization trends
  - Anecdotal observations
  - Other issues to consider
- Review the implications for the payor provider environment

# Methodology, Reliance and Limitations

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- Methodology
  - Actual self-funded plan cost comparisons
  - Average cost comparison drawn from Aon's proprietary commercial client database
  - 7,000 clients (5 to 100,000 active employees)
    - 700 self-funded, 118 CDH clients
    - EPO plans used as proxy for HMO
    - Same plan design, same networks, managing to same dollar
- Aon's database includes
  - Total premium sorted by employer/employee contributions
  - State-specific, regional as well as national observations

# Methodology, Reliance and Limitations (cont)

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- Other sources include:
  - Aon Health Care Trend Survey results and Aon Health Care Trend Survey Comparison, Fall 2005
  - Aon Consulting/International Society of Certified Employer Benefit Specialists (ISCEBS) Consumer-Driven Health Plan Survey, March 2005
  - Consumer-Directed Health Plan Report, McKinsey & Company, June 2005
- Evaluation of costs difficult because of varying pricing practices incorporating HRA/HSA funds in self-funded claim projections, stop-loss coverage and insured premiums

# **Presents Formidable Challenges and Strategic Issues Consumers, Payors, Providers**

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Which model is most efficient?

Will new PPO plan designs reduce long term healthcare cost trends?

Which model improves the quality of care?

# Standard Health Care Products

3 Components: deductible, coinsurance, copays

## HMO

Copay \$10 – 25

Deductible \$0

Coinsurance 0%

- First dollar coverage to consumer
- Primary care physician managed
- Effective managed care
- Patient care driven

## PPO

Copay \$10 – 25

Deductibles

Calendar year \$500

Hospital \$250

Coinsurance 20%/50%

- Open access
- Higher deductible
- More cost sharing
- Paid on FFS; shift from cap to paid claims
- Heavy cost share out-of-network
- Overall risk less managed – more cost control

## CDHP

Full charges up front

Deductible \$1,500-\$2,000

Personal Care Accounts

Coinsurance 20%

- “Consumerism”
- First dollar Catastrophic coverage with high deductible insured plan
- Fee for service
- Information tools key component
- Cost driven

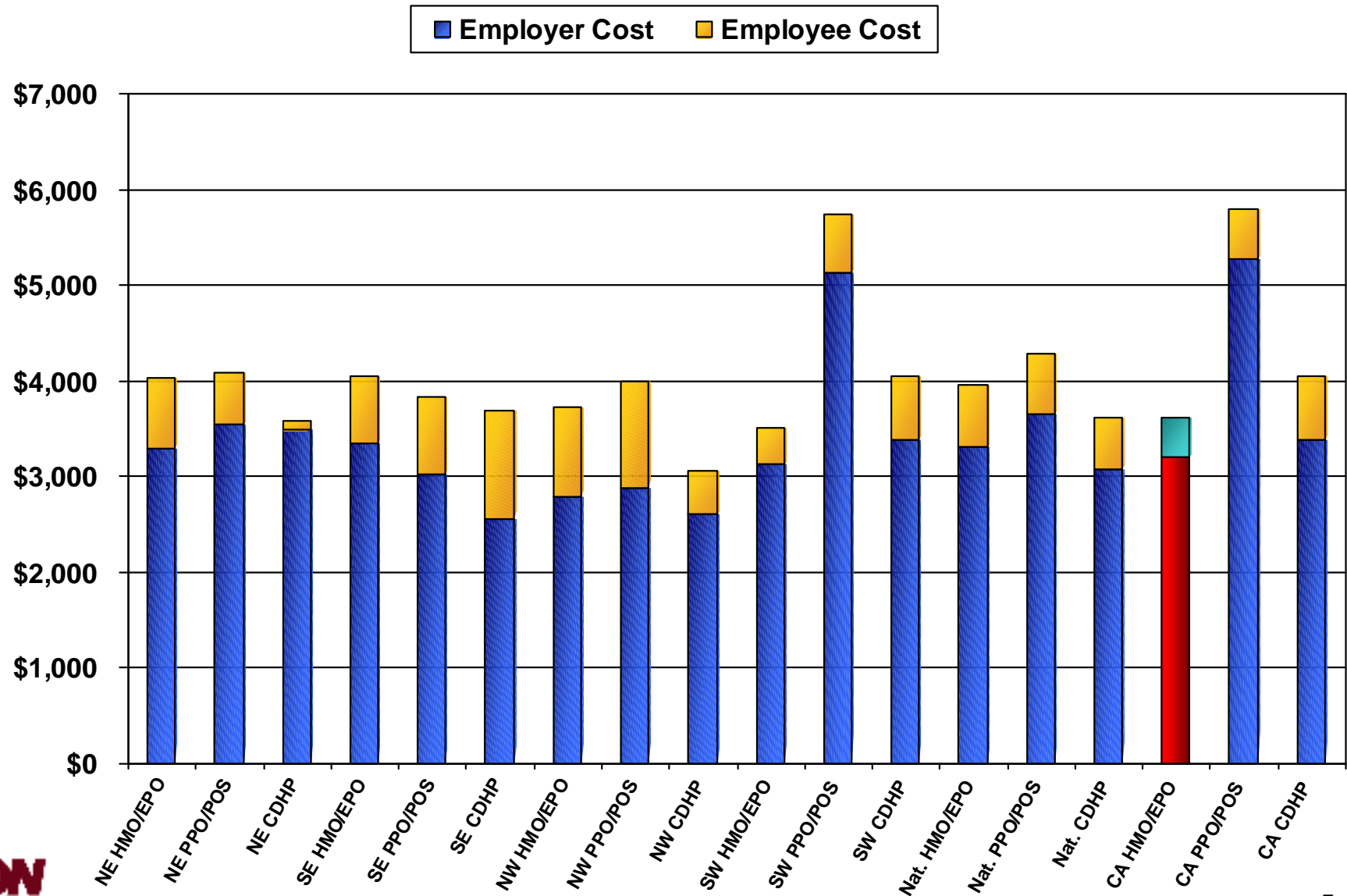
# Cost Comparisons

	<u>HMO/EPO</u>	<u>PPO / POS</u>	<u>Consumer Driven</u>
<b>Claims + Admin</b>			
NE	\$4,033	\$4,076	\$3,578
SE	\$4,051	\$3,835	\$3,684
NW	\$3,729	\$3,991	\$3,060
SW	\$3,508	\$5,743	\$4,049
National	\$3,959	\$4,288	\$3,625
<b>Employer</b>			
NE	\$3,298	\$3,540	\$3,483
SE	\$3,356	\$3,026	\$2,550
NW	\$2,797	\$2,872	\$2,601
SW	\$3,130	\$5,121	\$3,382
National	\$3,305	\$3,658	\$3,080
<b>Employee</b>			
NE	\$735	\$536	\$95
SE	\$695	\$809	\$1,134
NW	\$932	\$1,119	\$459
SW	\$378	\$622	\$667
National	\$654	\$630	\$545

NE North East and Midwest  
 SE Southeast, TX, & OK  
 NW Pacific NW and Rocky Mt.  
 SW Southwest, CA & HI

Administrative costs included.  
 Costs range from:  
 EPO/HMO \$40 - \$44  
 PPO \$30 - \$40  
 CDH \$41 - \$47

# Cost Comparisons



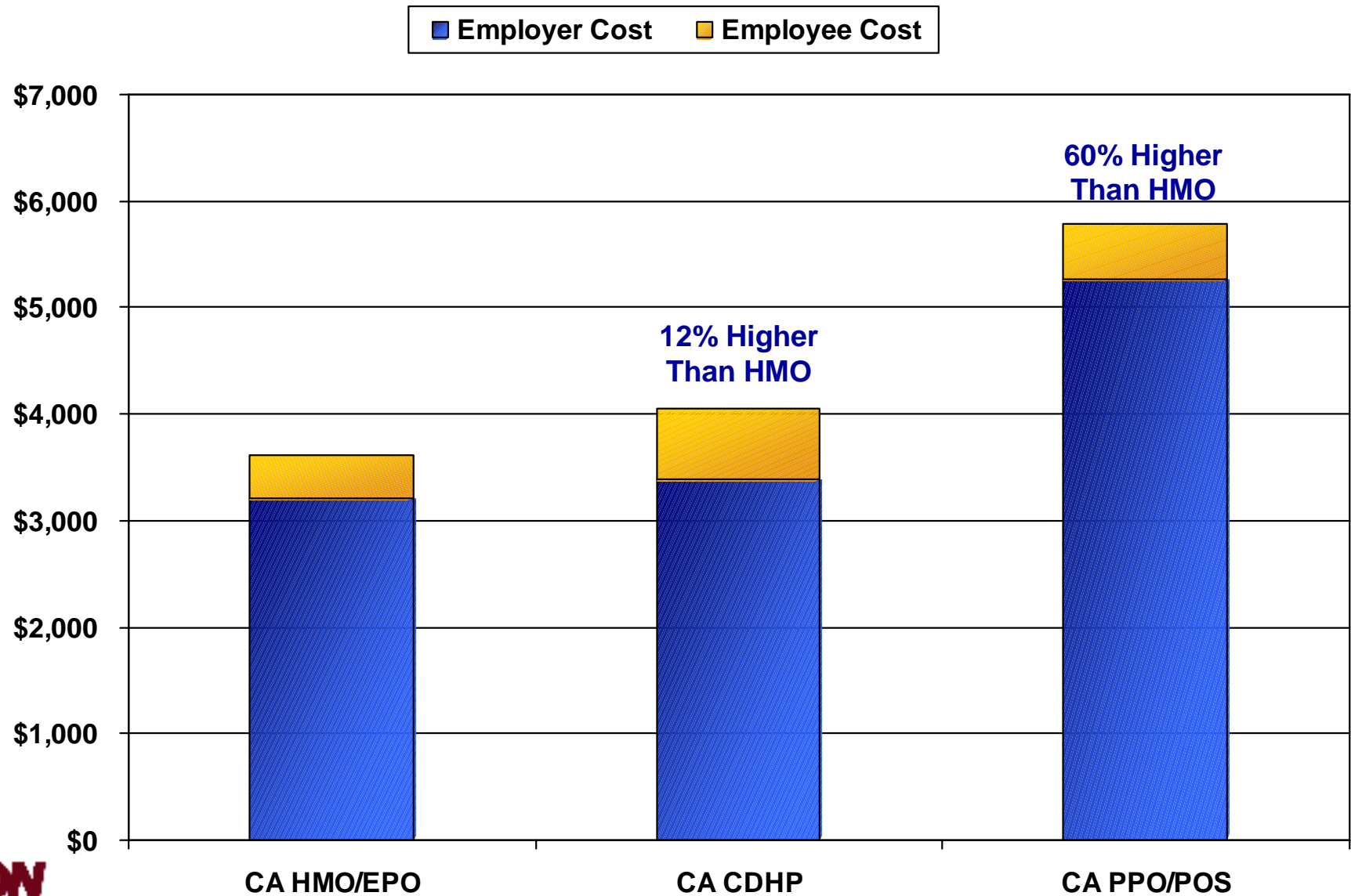


# Cost Comparisons

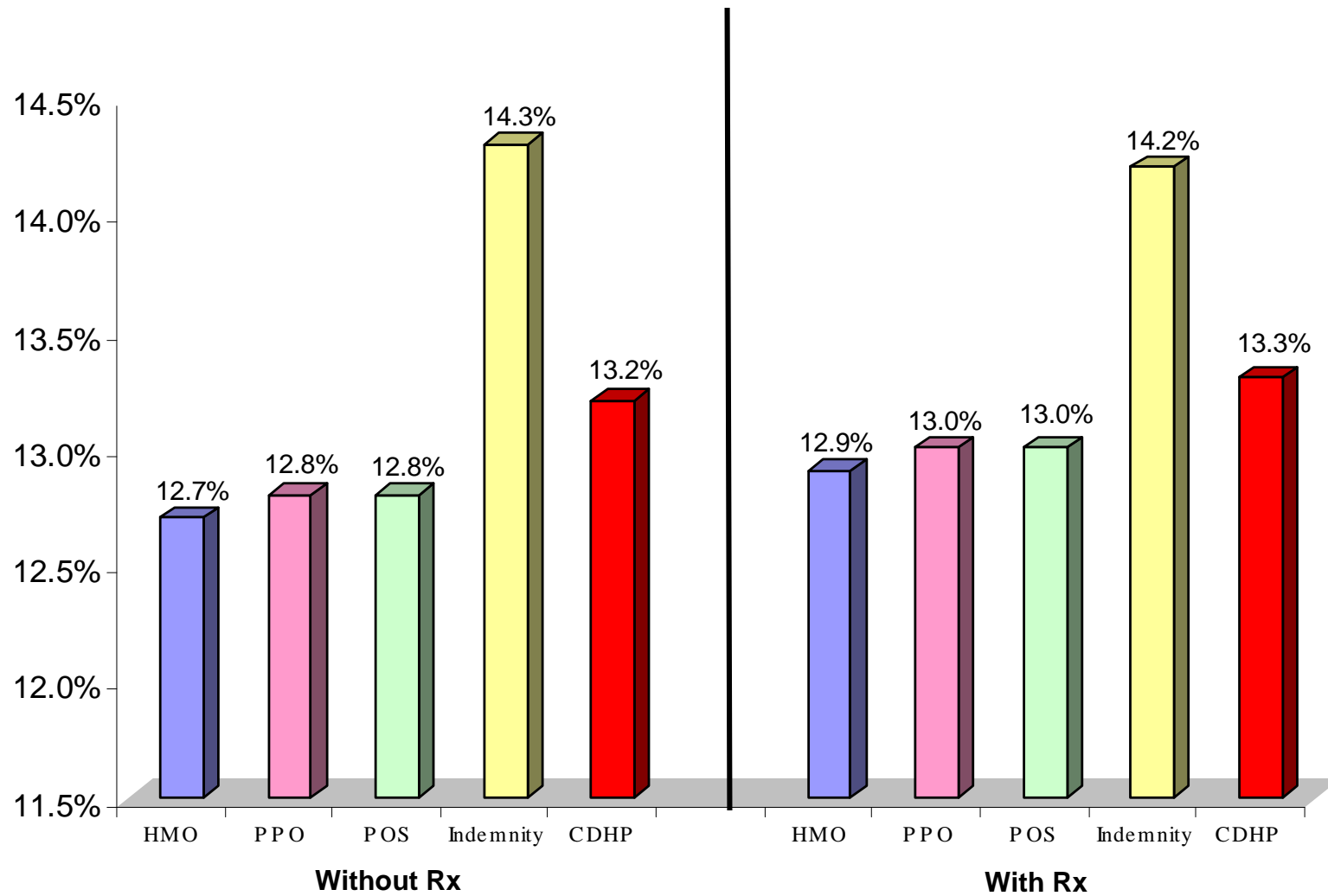
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	<u>HMO/EPO</u>	<u>PPO / POS</u>	<u>Consumer Driven</u>
<b>California</b>			
Claims & Admin	\$3,608	\$5,788	\$4,049
Employer	\$3,210	\$5,265	\$3,382
Employee	\$398	\$523	\$667

# Cost Comparisons



# Health Plan Trend Increases



# New Ways to Access System

Consumerism vs. Physician Oversight -  
focus on IT Tools

- Procedure Pricing
- Hospital quality data
- Health risk assessment tool
- Medical information lines/interactive
- Medical library
- 24-hour nurse line
- Rx Pricing
- Portable personal medical record
- Debit/smart cards to check fund status and collect up front
- Single EOB combines coverage, member responsibility and account balance

## Decision Points

